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RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 5963
RUEHBJ/AMEMBASSY BEIJING 3657
RUEHKO/AMEMBASSY TOKYO 3516
RUEHIT/AMCONSUL ISTANBUL 4205
RUEKJCS/JOINT STAFF WASHDC
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 1292
RUEHVEN/USMISSION USOSCE 4148

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001575

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR DSTARKS/EHOUSE

E.O. 12958: DECL: 12/08/2019
TAGS: [ECON](#) [PGOV](#) [EFIN](#) [EPET](#) [ETRD](#) [TX](#)
SUBJECT: TURKMENISTAN MINISTRY OF FINANCE CLAIMS "ALL IS
WELL" WITH ECONOMY

REF: ASHGABAT 1507

Classified By: Charge Peter Eckstrom for reasons 1.4 (b) and (d).

11. (C) SUMMARY. Ministry of Finance Officials asserted that the Turkmen economy is growing, and that the 2010 state budget reflects overall economic growth despite a forecasted deficit. Ministry officials acknowledged a deficit of approximately \$500 million for next year, adding that the state budget usually allows for more money than is actually spent in a given year. They also opined that the deficit was relatively small and could be easily covered by the state stabilization fund. The Ministry continues to stress the importance of diversifying sources of revenue, admitting that reliance on the country's hydrocarbon sector for the bulk of the state budget has been threatened by the gas stalemate between Turkmenistan and Russia, which has resulted in billions of dollars in lost revenue. In addition to expected revenue from new gas pipelines to China and Iran, Finance Ministry officials cited growth in several other sectors including construction, agriculture, and textiles and increased foreign direct investment as additional sources of future budgetary revenue. END SUMMARY.

12. (C) On December 7, EconOff met with Deputy Minister of Finance Dovletgeldi Sadykov to discuss the 2010 state budget and a deficit that was announced by the Turkmen President in November (reftel). Sadykov explained that the anticipated deficit was 1.5 billion Turkmen manats (\$500 million), and the state stabilization fund was created to cover such deficits. He stated there had been budget deficits in Turkmenistan at various times since the country gained independence in 1991, so the recent deficit was really "no big deal." He added that growth in both governmental and private sectors would also provide additional revenues to the state budget. He repeated the GOTX stance that the Turkmen economy remains insulated from negative affects of the global economic crisis, insisting that the Turkmen economy is experiencing a period of deflation versus inflation. (Note:

Anecdotally, Turkmen citizens continue to tell us that food, clothing, and overall prices are on the increase while salaries remain the same, and many are seeking additional jobs to make ends meet; it is more likely that the Turkmen economy is experiencing lower levels of inflation versus deflation. END NOTE.)

13. (C) The Deputy Finance Minister explained that the budget process in Turkmenistan is very rigid. By law, the Ministry of Finance must cooperate with other government agencies and departments to prepare official budget projections by September 1. Regional and local authorities are also required to provide their projections at the same time. By November 1, MinFin must submit a proposed budget to the Cabinet of Ministers. The Cabinet then approves the budget and sends it to the Parliamentary Budget Committee for review and a full parliamentary vote, after which the President signs off on it. Traditionally, Turkmen government budgets for the upcoming year are approved by the end of November, and the 2010 budget was signed by the Turkmen President on November 21, 2009.

14. (C) According to Sadykov, the bulk of Turkmenistan's revenue comes from the country's hydrocarbon sector. He explained that the upcoming opening of the Central Asia-China pipeline on December 15 symbolized a new revenue resource for the GOTX. The pipeline would pump up to five billion cubic meters (bcm) of Turkmen gas to China in 2010, with expectations that volumes to China would eventually reach 40 bcm in a few years. He acknowledged that the GOTX had received a \$4 billion loan from the Chinese, which the GOTX

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would pay back in-kind with gas. He also noted that an additional gas pipeline to Iran would also be operational by the end of the year, which would allow the GOTX to sell an additional 12 bcm of gas. At the same time, Sadykov hoped that Turkmenistan and Russia would reach agreement on gas purchases soon, asserting that gas price and volume were the two sticking points, blocking a new agreement. (Note: over the last few months many GOTX officials had suggested that agreement was needed on volume only, not price. End Note.) Moreover, he was confident that new gas revenues from sales to China and additional sales to Iran would eventually provide enough revenue to support subsequent budgets, adding that if gas sales to Russia resumed the GOTX would be "pleasantly surprised by a budget surplus."

15. (C) Turkmen expenditures for construction represent the largest share of the budget, according to Sadykov. He explained that the Turkmen President's mandate for revitalizing Turkmenistan included the high-quality construction of hospitals, schools, government buildings, and apartment buildings for all Turkmen citizens. He stressed that government subsidies for housing, utilities, healthcare, education, and even gasoline almost fully cover the total costs for those services, with Turkmen citizens paying on average only 1 percent of their salaries for social services. He estimated that citizens in the West would pay up to 60 percent of their salaries to receive the benefits Turkmen citizens receive "virtually for free." Sadykov also highlighted that the GOTX has raised pensions over 10 percent in the last 3 years.

16. (C) MinFin officials underscored that growth in the non-government sector had grown from 9 to 15 percent in 2009, with construction spearheading the growth. They also asserted that foreign direct investment had increased dramatically over the last few years, and had provided more employment opportunities for Turkmen citizens. They claimed that unemployment in the country was probably at five percent, since only five percent of the population currently claims unemployment benefits from the state. MinFin officials suggested that rumors that unemployment in the country was in the double digits were simply untrue, adding that some people might claim they are unemployed to avoid paying taxes, but if

one simply looks around Ashgabat, "everyone is working."

17. (C) COMMENT. Ministry of Finance officials provided, for the most part, the usual talking points -- everything is going well in Turkmenistan, especially the economy. At the same time, it appears that GOTX officials have realized that depending on Russia for the bulk of its revenue was imprudent. Over time, China and Iran will provide the country with large revenue from gas sales, which could prevent future budget deficits if the price and volumes purchased are favorable. Although MinFin officials claim that the GOTX has a very open policy toward increasing foreign direct investment, U.S. companies continue to express frustration over the GOTX's mixed signals, which to date, have resulted in few signed deals for American firms. END COMMENT.
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